



Public Employee Retirement System of Idaho

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

SUBMITTED FOR APPROVAL

MINUTES

OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., August 22, 2000. The following members were present:

Chairman Jody B. Olson
J. Kirk Sullivan
Pamela I. Ahrens
Dennis L. Johnson
Susan K. Simmons

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Deputy Director Ted Aho, Financial Officer Jim Monroe, Medical Advisor B. Strouth, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Doug Dorn
Richelle Sugiyama
Drew Black
Brian McGrath
Marta Watson
Jennifer Carrington
Tana Shillingstadt
Robert Schmidt
Karen Steffen
Rod MacKinnon
Bruce Reeder
Charlie Brown
Jerry Rasavage
Alan Pritchett

Dorn, Helliesen & Cottle
Dorn, Helliesen & Cottle
D.B. Fitzpatrick & Co
D.B. Fitzpatrick & Co
DFM
LSO
Office of the Governor
Milliman & Robertson
Milliman & Robertson
Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
Retired Educators Assn. of Idaho
IPEA
BEA

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| Dennis Doan | PFFI |
| Ben Ysursa | Secretary of State's Office |
| Jane Buser | BSU |
| Jim Shakelford | IEA |
| Gary Schwager | Russell/Mellon |
| Lucinda Smith | Mellon Bank |
| Bill Duncan | PERSI |
| Gay Lynn Bath | PERSI |
| Maxine Thomas | PERSI |
| Becky Crowther | PERSI |
| Susan Shaw | PERSI |
| Judy Aitken | PERSI |

EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(d) authorizes the same. By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board went into executive session at 8:32 a.m.

After discussion of each disability applicant, the Board resumed the regular session at 8:31 a.m. By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the Board unanimously approved the disability applications of Dennis Gregory, Dale A. Hunt, Mary Jane H. Leslie and Stanley A. Schwanz with no review.

OLD BUSINESS:

Approval of the Minutes: By motion duly made by Trustee Simmons and seconded by Trustee Ahrens, the Board unanimously approved the minutes of the July 25, 2000 regular meeting of the Retirement Board as submitted.

PORTFOLIO

Chief Investment Officer Robert Maynard told the Board that the National Risk Control standards he has been working on have been approved by the National Association of State Retirement Administrators (NASRA) and Association of Public Pension Fund Auditors (APPFA). PERSI meets the risk requirements of the standard. Chairman Olson said the Board is very proud of the national leadership Mr. Maynard has taken.

Mr. Maynard said next month an international tour of Thailand government officials looking at different systems will be in the US. They plan to attend the September Board meeting. Representatives may wish to meet with individual Board members; Mr. Maynard will coordinate this as the time approaches.

Mellon Trust Report: Lucinda Smith of Mellon Bank said her firm is working on a response to PERSI's RFP for record keeping. She introduced Gary Schwager of Russell/Mellon who reviewed the Performance Report for the quarter ending June 30, 2000. He said PERSI's diversification strategy is structured to find the less efficient part of the market and find where we can add value. In answer to a question from the Chair, Mr. Maynard said if we spend \$150

million for gain sharing, all of it-- plus half of the benefit increase-- is a direct result of excess investment performance over the past year (about 4% greater than our strategic benchmark and the returns of our peers). Mr. Schwager spent time reviewing the various benchmarks and manager performance, saying, for example, that Columbus Circle small cap has a one-year return of 22.2% for the one-year time period. He said they take a lot of risk compared to other managers, but are getting more return. The diversification of the portfolio allows PERSI to benefit in all kinds of markets.

Monthly Report: Chairman Olson said while Russell/Mellon provides quarterly and annual reports, our local consultant provide a monthly look at the investments as well as special reports. Doug Dorn of Dorn, Helliesen & Cottle reviewed the performance report for the period ended July 31, 2000. This report showed a Total Fund return of a negative 1.4% for the month. Mr. Dorn discussed some individual manager performance saying the MFS has a 6.4% calendar-year-to-date yield and Mountain Pacific Investments has a 6.1% return for the calendar year-to-date, 3% ahead of their benchmark.

Monthly Portfolio Update: Mr. Maynard reviewed his Investment Report dated August 21, 2000, which showed a total fund return of 1.2% for the fiscal year to date. Commenting on the report, the CIO said the current fiscal year has seen the markets generally trending sideways, with fixed income generally outperforming equities, value outperforming growth, and with international equities generally losing ground. The total fund and each of the accounts are performing as expected given the current market conditions.

The market is in one of its holding periods. There is a general consensus that the Fed is, at least temporarily, on hold for interest rate increases, but the longer term path of the economy (hard vs. soft landing, or continued excessive growth) is still a matter of some dispute. If slow growth is the path, then the issue becomes whether corporate earnings growth will suffer excessively. Until there is a new consensus, the current sidewise trend will likely continue.

Other Investment Business: Chairman Olson invited managers in attendance to comment. Brian McGrath and Rod MacKinnon both discussed the markets and the economy, each saying they expected no further raise in the interest rates by the Federal Reserve Board at this time.

ACTUARY:

Actuary Robert Schmidt of Milliman and Robertson reviewed the August 10, 2000 memorandum from Karen Steffen, including deferring the changes to the termination of employment (TOE) methodology and assumptions for two years.

By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved the Board adopted the recommended changes to assumptions contained in the August 10, 2000 memorandum to Mr. Winkle. The TOE methodology and assumptions will be revisited in two years.

Allocation of Gain Sharing to Groups: Trustee Sullivan discussed the August 16, 2000 memorandum to the Board from Executive Director Alan Winkle. Trustee Sullivan said the legislature had used these percentages during their session discussions. Going forward, the

amount of employee contributions will change, the retiree base will change and the employer base should also change. The Board will adopt an allocation range in which they would expect the gain sharing allocation to fall each time, and review it year by year. If the experience shows the ratio's change and fall outside of the range, the Board will address the issue again. By motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the Board adopted the allocation range of 48% to 52% for employers; 36% to 40% for employees; and 10% to 14% for retirees. In the same motion, the Board set the allocation for this year at 50% for employers, 38% for employees and 12% for retirees. The Board will expect to adopt rules on this issue at the September meeting.

FISCAL:

Fiscal Update and Expense Reports: Financial Officer James Monroe told the Board that the annual audit is in progress. Auditors will meet with Trustee Simmons in late September or early October for their report to her. Trustee Johnson was excused from the meeting at 9:55. Mr. Monroe reviewed the Administrative and Portfolio monthly expense reports. Senior Accountant Rhonda Yadon then discussed the Unaudited Financial Statements for the fiscal years ended June 30, 2000 and 1999, as well as the Sick Leave Reserve unaudited report for the same time period. Ms. Yadon answered questions and provided details on these reports. Chairman Olson asked who receives PERSI's financial results on a regular basis. Mr. Monroe said DFM and legislators receive at least quarterly reports on our financial performance and expenditures. In response to a question from the Chair, Ms. Yadon said the legislative auditors do not audit PERSI, but rely on our annual external audit by Deloitte and Touche. Chairman Olson said many years ago he had stated that he wanted PERSI to be the most open and audited agency and he wants to be sure we're living up to this commitment. Ms. Yadon said she believes that we are meeting those expectations.

FY 2002 Budget Request: Mr. Monroe provided a Summary of the FY2002 Budget Request along with updated detail sheets for the budget request. He discussed the request items and answered questions from the Board. Mr. Winkle had provided a memo dated August 15 which explained the new positions needed because of the gain sharing program, saying he is using a phased-in approach adding the new employees just in time to train them for the work. His memo noted that it is difficult to exactly anticipate the staffing needs for the gain sharing program during FY2002 (July 1, 2001 – June 30, 2002). With the State budgeting process, needs for the next two years must be estimated. However, if needs are underestimated, there will be no budgeted funds to meet the need. Chairman Olson said the Board has never critiqued individual staffing decisions; however, he is concerned with this level of increase for a new program. He cautioned management to hire only as and when needed. Trustee Simmons said she had spent quite a bit of time going through the numbers and positions and realizes this is the best guess of staffing needs. Part of the issue is that current staff is "maxed out" as the gain sharing program begins, and they are not able to absorb any additional work at this time. If the positions are not needed when budgeted funds are available, they will not be filled. By motion duly made by Trustee Simmons, seconded by Trustee Sullivan and unanimously approved, the Board approved the submitting of the proposed budget Request for 2002 to DFM as required.

Petition for Rulemaking by Ralph Mellin: Deputy Attorney General Brad Goodsell told the Board his office had just received a fax from Mr. Mellin withdrawing the petition at this time.

Status Update: The Board had previously received the monthly status memo which summarized the projects in which PERSI is involved. Mr. Winkle introduced Gay Lynn Bath, the Defined Contribution Program specialist; Training Specialist Maxine Thomas; and Bill Duncan the new Training Associate. These new employees are working with Information Officer Becky Crowther to prepare for meetings with our employers and determine the needs for our member education program. Chairman Olson noted the importance of the education program. Many of our members, for example, teachers--even though highly educated-- do not understand the DC program. He is encouraged that the educational effort will be led by our Information Officer Becky Crowther who has done a great job with our publications, seminars and website. The April 2000 PERSpective article written by Ms. Crowther, about PERSI member and Cowboy Poet Colen Sweeten, Jr., resulted in his being nominated – and receiving – one of The Governor’s Awards in the Arts 2000. Chairman Olson commended Ms. Crowther for her work.

Mr. Winkle said the Retiree Medical Advisory Study has given us a very good reading on the sensitivity of our retired members. We are receiving questions that we did not anticipate, and are learning where we need to work on our communications. Actuary Robert Schmidt said over 800 retirees and 500 active members have responded to the survey, and nearly 100 employers have also. Mr. Winkle said we have more than 400 applications for retiring next month. Processing them and testing Galena modules at the same time is requiring overtime by the staff. We are also getting inquiries on purchase of service and expect more of those in the future.

Adjournment: There being no further business to conduct, by motion duly made by Trustee Sullivan, seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 10:32. a.m.

FUTURE BOARD MEETINGS

Tuesday, September 26, 2000, 8:30 a.m., Boise – PERSI office
Tuesday, October 24, 2000, 8:30 a.m., Boise – PERSI office
Tuesday, November 28, 2000, 8:30 a.m., Boise – PERSI office
Tuesday December 19, 2000, 8:30 a.m., Boise – PERSI office

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director